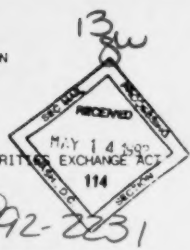


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Q-34938



UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q



☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 1992

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____
Commission file number Q-7515

MICHIGAN FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

Michigan
(State or other jurisdiction of incorporation or organization)

38-2011532
(I. R. S. Employer Identification Number)

101 West Washington Street, Marquette, Michigan
(Address of principal executive offices)

49855
(Zip Code)

Registrant's telephone number, including area code (906) 228-6940

Not applicable
(Former name, former address, and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days YES x NO

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

CLASS

Outstanding as of May 8, 1992

Common Stock, \$1.00 par value

2,578,926

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MICHIGAN FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended March 31	
	<u>1992</u>	<u>1991</u>
	(in thousands)	
OPERATING ACTIVITIES		
Net income	\$ 1,551	\$ 1,262
Adjustments to reconcile net income to net cash provided by operating activities:		
(Increase) decrease in interest receivable	555	(144)
Provision for loan losses	319	510
Depreciation and amortization	318	327
Amortization of investment security premium	229	296
Realized gain on sale of loans	(127)	(5)
Increase in interest payable	24	240
Other	<u>(464)</u>	<u>(540)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,405	1,946
INVESTING ACTIVITIES		
Purchases of investment securities	(19,111)	(23,454)
Proceeds from maturities of investment securities	16,600	17,570
Net (increase) decrease in short-term investments	(11,483)	400
Net decrease in loans	6,214	1,886
Purchases of premises and equipment	(1,023)	(282)
Proceeds from sales of premises and equipment	<u>3</u>	<u>1</u>
NET CASH USED BY INVESTING ACTIVITIES	(8,800)	(3,879)
FINANCING ACTIVITIES		
Cash dividends	(489)	(434)
Net increase (decrease) in deposits	181	(1,928)
Net increase in short-term borrowings		310
Net decrease in other debt		(177)
Proceeds from sale of common stock	<u>66</u>	<u>75</u>
NET CASH USED BY FINANCING ACTIVITIES	<u>(242)</u>	<u>(2,154)</u>
DECREASE IN CASH AND DUE FROM BANKS	(6,637)	(4,087)
Cash and due from banks at beginning of year	<u>35,328</u>	<u>31,962</u>
CASH AND DUE FROM BANKS AT END OF PERIOD	\$28,691	\$27,875
	=====	=====

See notes to consolidated financial statements.

MICHIGAN FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	Three months ended March 31	
	<u>1992</u>	<u>1991</u>
	(in thousands, except per share data)	
Interest income:		
Loans, including fees	\$11,929	\$12,438
Short-term investments	947	1,061
Investment securities:		
Taxable	2,190	2,715
Tax-exempt	<u>108</u>	<u>76</u>
TOTAL INTEREST INCOME	15,174	16,290
Interest expense:		
Deposits	7,481	9,027
Short-term borrowings		6
Other debt		<u>16</u>
TOTAL INTEREST EXPENSE	<u>7,481</u>	<u>9,049</u>
NET INTEREST INCOME	7,693	7,241
Provision for loan losses	<u>319</u>	<u>510</u>
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	7,374	6,731
Other income:		
Trust department income	710	624
Fees for other customer services	423	380
Other	<u>443</u>	<u>286</u>
	<u>1,576</u>	<u>1,290</u>
	8,950	8,021
Other expenses:		
Salaries and employee benefits	3,227	3,033
Data processing	474	448
Net occupancy	471	419
Furniture and equipment	342	340
FDIC premiums	366	296
Other real estate	237	74
Other	<u>1,677</u>	<u>1,651</u>
	<u>6,794</u>	<u>6,261</u>
Income before income tax	2,156	1,760
Income tax expense	<u>605</u>	<u>498</u>
NET INCOME	\$ 1,551	\$ 1,262
	=====	=====
WEIGHTED AVERAGE SHARES OUTSTANDING	2,577	2,555
Per share data:		
Net income	\$.60	\$.49
Dividends paid	\$.19	\$.17

See notes to consolidated financial statements.

PART I. FINANCIAL INFORMATION

MICHIGAN FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	March 31. 1992	December 31. 1991	March 31. 1991
	(dollars in thousands)		
ASSETS			
Cash and due from banks	\$ 28,691	\$ 35,328	\$ 27,875
Short-term investments	98,455	86,972	59,450
Investment securities	125,587	123,305	139,801
Loans	438,513	444,857	431,564
Allowance for loan losses	(5,736)	(5,674)	(5,866)
NET LOANS	432,777	439,183	425,698
Premises and equipment	13,635	12,929	12,398
Accrued interest receivable	5,456	6,011	6,936
Other assets	6,576	6,601	6,830
	\$711,177	\$710,329	\$678,988
	=====	=====	=====
LIABILITIES			
Domestic deposits:			
Noninterest bearing	\$ 59,190	\$ 62,599	\$ 50,702
Interest bearing	586,794	533,204	565,741
TOTAL DEPOSITS	645,984	645,803	616,443
Short-term borrowings			506
Other debt			579
Accrued interest payable	3,486	3,462	4,351
Other liabilities	3,791	4,276	3,862
TOTAL LIABILITIES	653,261	653,541	625,742
STOCKHOLDERS' EQUITY			
Common stock, par value \$1 per share- 5,000,000 shares authorized, shares issued and outstanding:			
March 31, 1992 - 2,578,928			
December 31, 1991 - 2,574,717			
March 31, 1991 - 2,558,670	2,579	2,575	2,559
Surplus	14,167	14,104	13,887
Retained earnings	41,170	40,109	36,800
TOTAL STOCKHOLDERS' EQUITY	57,916	56,788	53,246
	\$711,177	\$710,329	\$678,988
	=====	=====	=====

See notes to consolidated financial statements.

MICHIGAN FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A - BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q, and therefore do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been reflected in the financial statements. However, the results of operations for the three month periods ended March 31, 1992 and 1991 are not necessarily indicative of the results to be expected for the full year.

For further information, refer to the consolidated financial statements and footnotes included in the Company's annual report on Form 10-K for the year ended December 31, 1991.

NOTE B - INVESTMENT SECURITIES

A comparison of the carrying amount and approximate market value follows:

	March 31, 1992		December 31, 1991	
	Carrying Amount	Approximate Market Value	Carrying Amount	Approximate Market Value
	(in thousands)			
U.S. Treasury and government agencies	\$ 90,411	\$ 92,378	\$106,027	\$109,191
State and political subdivisions	8,647	8,616	6,978	6,984
Mortgage-backed securities	25,072	24,609	8,853	8,861
Other securities	<u>1,457</u>	<u>1,500</u>	<u>1,447</u>	<u>1,502</u>
TOTAL	<u>\$125,587</u>	<u>\$127,103</u>	<u>\$123,305</u>	<u>\$126,538</u>
	=====	=====	=====	=====

NOTE C - RECLASSIFICATIONS

Certain amounts in 1991 have been reclassified to conform with the classifications in 1992.

MICHIGAN FINANCIAL CORPORATION AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is management's discussion and analysis of certain significant factors which have affected the Company's financial condition and earnings during the periods included in the accompanying consolidated financial statements.

FINANCIAL CONDITION

A summary of the period changes in principal sources and uses of funds is shown below in thousands of dollars, and as a percent.

	Change from December 31, 1991 to March 31, 1992	
	Amount of Increase (Decrease)	Percent Increase (Decrease)
Funding sources:		
Deposits	\$ 181	.0%
Other sources, net	7,995	218.6
Total sources	<u>\$ 8,176</u>	<u>1.2%</u>
	=====	=====
Funding uses:		
Loans	\$(6,087)	(1.4)%
Investment securities	2,282	1.9
Short-term investments	11,483	13.2
Interest bearing deposits in other banks	498	NMF
Total uses	<u>\$ 8,176</u>	<u>1.2%</u>
	=====	=====

Aggregate deposits, the primary source of funds, increased by only \$181,000 during the first quarter of 1992. Experience was mixed within the deposit category, as shown below:

	Increase (Decrease)	Percent
Demand	\$ (3,409)	(5.4)%
Savings	13,931	4.9
Time-retail	(7,129)	(2.7)
Time-jumbo	(3,212)	(10.1)
	<u>\$ 181</u>	<u>.0%</u>
	=====	=====

Demand deposits decreased at four of the Company's six banking subsidiaries and time deposits decreased at all six. These decreases were offset by increases in the savings category in five of the six banking subsidiaries.

The loan portfolio decreased by 1.4% during the first quarter of 1992. The real estate mortgage and installment loan areas both decreased slightly during the period while commercial loans showed a small increase. The installment loan decrease can be attributed to a decrease in demand for these types of loans, while the real estate mortgage decrease is due to the Company's subsidiary banks reselling mortgages in the secondary market.

Funds not required to meet loan demand are invested in other earning assets. For liquidity purposes the excess funds generated during the period were mainly placed in short-term assets, with the remainder placed in investment securities and interest bearing deposits in other banks.

In addition to the above trends in the sources and uses of funds, the Company services loans for outside agencies, primarily the Federal Home Loan Mortgage Corporation (FHLMC). At March 31, 1992 the volume of FHLMC loans sold with servicing being retained was \$93.2 million. The comparable figure for 1991 was \$61.5 million. The ability of the Company to sell these loans in large block amounts enables it to more effectively manage its funding operations.

LIQUIDITY AND CAPITAL RESOURCES

During the first quarter of 1992 there were no significant changes with respect to the capital resources of the Company. Management feels that the liquidity position of the Company as of March 31, 1992 is much more than adequate to meet its

future cash flow needs. Capital adequacy regulations, effective December 31, 1992, require Tier I capital (common equity less goodwill) of 4.0% of risk-adjusted assets and Total capital (primarily Tier I capital plus the allowance for loan losses, subject to certain limitations) of 8.0% of risk-adjusted assets. A minimum level of Tier I capital to average total assets ("leverage ratio") of 3.0% has also been stipulated. As summarized below, the Corporation's capital ratios were well in excess of those requirements.

	Regulatory Minimum <u>for 1992</u>	March 31, <u>1992</u> <u>1991</u>	
Tier I capital	4.0%	13.13%	12.41%
Total capital	8.0	14.38	13.78
Tier I leverage ratio	3.0	6.18	7.84

RESULTS OF OPERATIONS

A summary of the period to period changes in the principal items included in the consolidated statements of income is shown below in thousands of dollars, and as a percent.

	<u>Comparison of</u> <u>Three months ended</u> <u>March 31, 1992 and 1991</u> <u>Increase(Decrease)</u>	
Interest income	\$(1,116)	(6.9)%
Interest expense	(1,568)	(17.3)
Net interest income	452	6.2
Provision for loan losses	(191)	(37.5)
Net interest income after provision for loan losses	643	10.0
Other income	286	22.2
Other expenses	533	8.5
Income before income tax	396	22.5
Applicable income tax	107	21.5
Net income	\$ 289	22.9%
	=====	=====

Net Interest Income

The increase in net interest income during the first quarter of 1992 was due to the fact that while both the interest income and the interest expense decreased from the first quarter of 1991 the interest expense decreased more. The Company's ongoing process to match liabilities and assets for rate sensitivity has met with some success as net interest income again increased during the first quarter of 1992. The continued decline in nonperforming loans, as discussed under "Provision for Loan Losses", has also had a beneficial impact on net interest income.

Provision for Loan Losses

The decrease in the loan loss provision during the first three months indicates a normalization in the provision at the subsidiary bank level. The Company was able to increase its allowance for loan losses by \$62,000 or 1.1% during the quarter despite the decrease in the amount of the loan loss provision. Net loan charge-offs for the quarter amounted to \$257,000, a decrease of 28.8% from the amount of \$361,000 for the comparable period in 1991.

Expressed as a percent of outstanding loans the allowance increased from 1.28% at year end 1991 to 1.31% at March 31, 1992. The allowance level will not necessarily be maintained at this level during future periods as the amounts provided during any given period are dependent upon management's ongoing review process and assessment of the perceived loss exposure in the then outstanding loan portfolio.

The quality of the loan portfolio showed continued improvement during the first quarter of 1992 as nonperforming loans decreased by \$538,000 or 13.4%. Total nonperforming assets, which includes other real estate, showed an improvement of \$637,000 or 10.5% from December 31, 1991.

The table below summarizes the changes made in nonperformings since year end 1991.

	March 31, 1992	December 31, 1991
	(in thousands)	
Nonaccrual loans	\$1,884	\$2,305
Loans past due		
90 days or more	1,396	1,509
Restructured loans	201	205
Total nonperforming loans	3,481	4,019
Other real estate	1,977	2,076
Total nonperforming assets	\$5,458	\$6,095
	=====	=====
Nonperforming loans		
as a % of total loans	.79%	.90%
	=====	=====
Nonperforming assets		
as a % of total assets	.77%	.86%
	=====	=====

On a percentage basis, the allowance for loan losses increased from 141.2% of nonperforming loans at the end of 1991 to 164.8% at March 31, 1992. Management intends to continue in its efforts toward improving the quality of the loan portfolio.

Other Income

Other income increased by \$286,000 or 22.2% from the first three months of 1991. Much of the increase in other income is due to \$127,000 in gains on sales of loans by three of the Company's banks, compared to \$6,000 during the first three months of 1991. It is not anticipated that the Company will continue to recognize this level of gains on sales of loans during the rest of the year. In addition, more than 30% of the increase is due to an increase of \$86,000 or 13.8% in trust income.

Other Expenses

The increase in other expenses resulted from increases in the major categories of other expenses, indicative of the normal effects of inflation as well as the growth of the organization. The major components of other expenses increased as follows:

Salaries and employee benefits	6.4%
Occupancy, furniture and equipment	7.1
Data processing	5.8
FDIC premiums	23.6
Other real estate	NMF
Other	1.6

Much of the increase in FDIC premiums for the first quarter of 1992 is due to the July 1, 1991 increase of 17.9% in the premium rate charged on deposits. At this time the Company does not anticipate any further rate increases during 1992. The expense for other real estate owned was \$163,000 over the comparable period in 1991. This was due to a combination of 1992's expense for the first quarter being inflated due to some losses on disposals of properties, while 1991's was below historic levels. Management does not anticipate this increase will continue the rest of the year.

Applicable Income Tax

Applicable income tax expense is based on income, less that portion which is exempt from federal taxation, taxed at the statutory federal income tax rate of 34%. The provision is further reduced by other smaller items. The increase in the 1992 income tax provision reported herein for the first quarter was mostly due to the improvement in pre-tax income of the Company for the first quarter of 1992, combined with a decrease in the portion of interest income which is exempt from federal taxation.

PART II. OTHER INFORMATION

Item 6 - Exhibits and Reports on Form 8-K

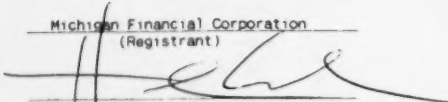
(b) Reports on Form 8-K - There were no reports on Form 8-K filed for the three months ended March 31, 1992.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Michigan Financial Corporation
(Registrant)

Dated: May 8, 1992


Howard L. Conodas, Chairman
& President
(Chief Executive Officer)

Dated: May 8, 1992


Kenneth F. Beck, Senior Vice President,
Treasurer & Secretary
(Chief Financial Officer and
Chief Accounting Officer)